

CITY OF ALTOONA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

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CITY OF ALTOONA

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Timothy J. Burget .....	Mayor .....	Jan 2008
Matt Davenport .....	Mayor Pro-Tem .....	Jan 2008
Josiah (Skip) Conkling .....	Council Member .....	Jan 2006
Stacey Warren .....	Council Member .....	Jan 2008
Charles Franklin .....	Council Member .....	Jan 2006
Joe Riding .....	Council Member .....	Jan 2006
Jeffery Mark .....	City Administrator .....	Indefinite
Randy Pierce .....	Clerk/Finance Officer .....	Jan 2006
Robert Laden .....	Attorney .....	Jan 2006
Larry J. Handley .....	Attorney .....	Jan 2006

(After January 2006)

Timothy J. Burget .....	Mayor .....	Jan 2008
Charles Franklin .....	Mayor Pro-Tem .....	Jan 2010
Josiah (Skip) Conkling .....	Council Member .....	Jan 2010
Stacey Warren .....	Council Member .....	Jan 2008
Charles Franklin .....	Council Member .....	Jan 2010
Joe Riding .....	Council Member .....	Jan 2010
Matt Davenport .....	Council Member .....	Jan 2008
Jeffery Mark .....	City Administrator .....	Indefinite
Randy Pierce .....	Clerk/Finance Officer .....	Jan 2007
Robert Laden .....	Attorney .....	Jan 2007



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**CERTIFIED PUBLIC ACCOUNTANTS**  
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### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altoona's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Altoona at June 30, 2006, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006 on our consideration of the City of Altoona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned financial statements that collectively comprise the City of Altoona's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
August 31, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Altoona provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The City's governmental funds' receipts increased 50%, or approximately \$8,385,000 from fiscal year 2005 (FY05). Property tax increased approximately \$970,000 due to increased tax increment financing collections. Bond proceeds increased by 7.376 million.
- City program disbursements increased 10.6%, or approximately \$1,671,000, from FY05. Debt service expense increased approximately \$2,493,700.
- The City's total cash basis net assets increased 54% or approximately \$8,473,500 from June 30, 2005 to June 30, 2006. Of this amount, the City's governmental funds' cash balance at June 30, 2006 increased 135%, or approximately \$9,195,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consist of a statement of activities and net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about nonmajor governmental funds and debt obligations.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and garbage collection. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The fund financial statements begin on page 14 and provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The government fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and recycling funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

### Government Activities

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities has increased from a year ago, increasing from \$7,230 million to \$16.425 million. Our analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service and sales	\$ 989	\$ 1,044
Operating grants, contributions and restricted interest	1,072	1,098
Capital grants, contributions and restricted interest	12	118
General receipts:		
Property tax	7,796	6,827
Other City taxes	503	527
Grants and contributions not restricted to specific purposes	1,069	964
Unrestricted investment earnings	313	146
Bond proceeds	13,071	5,695
Other general receipts	42	63
Transfers, net	2,220	425
Total receipts and transfers	<u>27,087</u>	<u>16,907</u>
Disbursements:		
Public safety	3,219	2,723
Public works	1,140	950
Culture and recreation	1,766	1,590
Community and economic development	1,833	1,687
General government	717	250
Debt service	4,811	2,385
Capital projects	4,406	6,419
Total disbursements	<u>17,892</u>	<u>16,004</u>



Increase (decrease) in cash balance	9,195	903
Cash basis net assets beginning of year	<u>7,230</u>	<u>6,327</u>
Cash basis net assets end of year	<u>\$ 16,425</u>	<u>\$ 7,230</u>

The City's total receipts for governmental activities increased by 50 percent (\$8.385 million). The total cost of all programs and services increased by approximately \$1.89 million or 11.8 percent due to an increase in debt service payments.

Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$237,000 next year or 7.7%.

The cost of all governmental activities this year was \$17.892 million compared to \$16.004 million last year. However, as shown in the statement of activities and net assets - cash basis on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$15.820 million because some of the cost was paid by those directly benefitted from the programs (\$.989 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.084 million). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$2,259,919 to approximately \$2,072,229, principally due to a decrease in capital grants, contributions and restricted interest. The City paid for the remaining public benefit portion of governmental activities with approximately \$8,299,199 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

#### Business Type Activities

#### Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)

	<u>2006</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for service and sales:		
Water	\$ 2,732	\$ 2,420
Sewer	2,571	2,317
Garbage	376	349
Recycling	105	98
General receipts:		
Water deposits	24	21
Unrestricted investment earnings	41	37
Bond proceeds	2,539	4,280
Other general receipts	84	218
Non-operating receipts	<u>29</u>	<u>15</u>
Total receipts	<u>8,501</u>	<u>9,755</u>
Disbursements:		
Water	4,434	3,298
Sewer	2,119	1,618
Garbage	330	382
Water deposits	15	17
Other	105	94
Transfers	<u>2,220</u>	<u>425</u>
Total disbursements and transfers	<u>9,223</u>	<u>5,834</u>

Increase (decrease) in cash balance	(722)	3,921
Cash basis net assets beginning of year	<u>8,364</u>	<u>4,443</u>
Cash basis net assets end of year	<u>\$ 7,642</u>	<u>\$ 8,364</u>

Total business-type activities receipts for the fiscal year were \$8.501 million compared to \$9.755 million last year. This decrease was due primarily to the decrease in bond proceeds. The cash balance decreased by approximately \$722,000 from the prior year. Total disbursements for the fiscal year increased by approximately 29 percent to a total of \$7.003 million.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Altoona completed the year, its governmental funds reported a combined fund balance of \$16,193,583, an increase of more than \$9,288,986 above last year's total of \$6,904,597. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$465,611 from the prior year to \$3,776,738. Approximately \$134,500 of this increase was due to the increase in the assessed tax base of the City.
- The Road Use Tax Fund cash balance decreased by \$10,813 to \$124,177 during the fiscal year. This decrease was attributable to an increase in roadway maintenance and in snow removal expense.
- The Tax Increment Financing Fund increased by \$1,218,639 to \$3,066,727 during the fiscal year. The increase is the result of several major projects under construction this year.
- The total of Capital Projects Funds increased by \$7,714,000 to \$8,798,834 from the prior year, the increase was primarily due to bond proceeds received.
- The Debt Service Fund cash balance decreased by \$122,502 to \$230,495 during the fiscal year. This decrease was due to the payment of two bond issues by a refunding bond issue.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$2,119,156 to \$3,007,462, due primarily to the payment for a new water tower.
- The Sewer Fund cash balance increased by \$1,285,901 to \$4,414,739, due primarily to the sale of bonds, in which the related expense is to occur next year.
- The Water Deposit Fund increased \$8,643 to \$65,898. This is due to the increase in the number of residents living in Altoona.
- The Garbage Fund increased \$55,239 to \$63,670. This was due to the fact that this was the first full year under the rate increase.
- The Recycling Fund increased \$96 to \$25,083.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 15, 2006 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$39,030,000 in bonds and other long-term debt compared to approximately \$27,830,000 last year shown as follows:

Outstanding Debt at Year-End (Expressed in Thousands)		
	2006	2005
General obligation bonds		
Corporate purpose and other	\$ 23,005	\$ 10,730
Urban renewal tax increment financing	8,085	8,640
	31,090	19,370
Revenue notes	7,940	8,460
Total	<u>\$ 39,030</u>	<u>\$ 27,830</u>

The City's general obligation bond rating continues to carry an A2 rating, a rating that has been assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$23,005,000 is well below the City's \$41.188 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2007 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth since the 2000 census stands at 29%. Unemployment in the county now stands at 3.3 percent. This compares with the state unemployment rate of 3.6 percent.

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2005 was 195.40. For the 12 month period that ended in July, the CPI-U increased 3.17 percent.

These indicators were taken into account when adopting the budget for 2007. Amounts available for appropriation in the budget are \$2.65 million, an increase of 12.0 percent over the final 2006 budget. Property tax (benefitting from increases in valuation) and proceeds from the tax increment financing revenue are expected to lead this increase. The City will use these to finance programs currently offered and to defray the costs of carrying out the City's continued economic development. Budgeted disbursements are expected to rise by approximately \$3.0 million. Increased wage and cost-of-living adjustments, increases in water and sewer construction and maintenance represent the largest increases.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$5.9 million by the close of fiscal year 2007. Most of this is from projects carried over from the prior year.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Randy Pierce, City Clerk/Finance Officer, 407 8<sup>th</sup> Street S.E., P.O. Box 338, Altoona, Iowa 50009.

## **BASIC FINANCIAL STATEMENTS**

## CITY OF ALTOONA

## STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Public safety	\$ 3,218,701	\$ 834,067	\$ 83,328	\$ -	\$(2,301,306)	\$ -	\$(2,301,306)
Public works	1,140,280	-	988,327	-	(151,953)	-	(151,953)
Culture and recreation	1,766,112	25,151	-	-	(1,740,961)	-	(1,740,961)
Community and economic development	1,833,179	28,004	-	-	(1,805,175)	-	(1,805,175)
General government	716,705	101,428	-	-	(615,277)	-	(615,277)
Debt service	4,810,661	-	-	-	(4,810,661)	-	(4,810,661)
Capital projects	4,406,379	-	-	11,924	(4,394,455)	-	(4,394,455)
Total governmental activities	17,892,017	988,650	1,071,655	11,924	(15,819,788)	-	(15,819,788)
Business-type activities:							
Water	4,433,755	2,731,869	28,650	-	-	(1,673,236)	(1,673,236)
Sewer	2,118,797	2,570,944	12,577	-	-	464,724	464,724
Garbage	329,975	376,775	-	-	-	46,800	46,800
Water deposits	14,907	-	23,550	-	-	8,643	8,643
Recycling	105,281	105,377	-	-	-	96	96
Total business-type activities	7,002,715	5,784,965	64,777	-	-	(1,152,973)	(1,152,973)
Total	\$24,894,732	\$6,773,615	\$ 1,136,432	\$ 11,924	(15,819,788)	(1,152,973)	(16,972,761)
<b>General receipts:</b>							
Property tax levied for:							
General purposes					2,826,021	-	2,826,021
Employee benefits					105,811	-	105,811
Tax increment financing					4,668,981	-	4,668,981
Special assessment					5,965	-	5,965
Debt service					189,126	-	189,126
Hotel/motel tax					503,295	-	503,295
Grants and contributions not restricted to specific purpose					1,069,454	-	1,069,454
Bond proceeds					13,071,432	2,538,568	15,610,000
Unrestricted investment earnings					313,015	29,431	342,446
Miscellaneous					41,840	83,316	125,156
Transfers					2,220,047	(2,220,047)	-
Total general receipts and transfers					25,014,987	431,268	25,446,255
Change in cash basis net assets					9,195,199	(721,705)	8,473,494
Cash basis net assets beginning of year					7,229,660	8,363,870	15,593,530
Cash basis net assets end of year					\$16,424,859	\$ 7,642,165	\$24,067,024

## CITY OF ALTOONA

## STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - CONTINUED

As of and for the year ended June 30, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants and Contributions Restricted Interest	Governmental Activities	Business-type Activities	Total
Disbursements						
<b>Cash Basis Net Assets</b>						
Restricted:						
Debt service				\$ 230,495	\$ 1,183,016	\$ 1,413,511
Streets				124,177	-	124,177
Urban renewal purposes				3,066,727	-	3,066,727
Other purposes				8,926,722	65,313	8,992,035
Unrestricted				3,776,738	6,693,836	10,470,574
<b>Total cash basis net assets</b>				<u>\$ 16,124,859</u>	<u>\$ 7,942,165</u>	<u>\$ 24,067,024</u>

See notes to financial statements.

## CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

	General	Special Revenue Road Use Tax	Tax Increment Financing	Capital Projects A-Land/1 <sup>st</sup> Ave/ 945	Campus	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:								
Property taxes	\$2,826,021	\$ -	\$ -	\$ -	\$ -	\$ 189,126	\$ 105,811	\$ 3,120,958
Tax increment financing collections	-	-	4,668,981	-	-	-	-	4,668,981
Other city tax								
Hotel/motel	503,295	-	-	-	-	-	-	503,295
Lottery revenue	874,863	-	-	-	-	-	-	874,863
Licenses and permits	628,498	-	-	-	-	-	-	628,498
Uses of money and property	313,015	-	-	-	-	-	2,187	315,202
Intergovernmental	194,591	988,327	-	-	-	-	81,328	1,264,246
Charges for service	360,152	-	-	-	-	-	-	360,152
Special assessments	-	-	-	-	-	5,965	-	5,965
Hook up fees	-	-	-	-	-	-	11,737	11,737
Miscellaneous	41,840	-	-	-	-	-	-	41,840
Total receipts	5,742,275	988,327	4,668,981	-	-	195,091	201,063	11,795,737
Disbursements:								
Operating:								
Public safety	2,989,586	-	-	-	-	-	164,880	3,154,466
Public works	-	999,140	-	-	-	-	-	999,140
Culture and recreation	1,614,779	-	-	-	-	-	-	1,614,779
Community and economic development	534,070	-	1,262,030	-	-	-	-	1,796,100
General government	716,705	-	-	-	-	-	-	716,705
Debt service	-	-	-	-	-	4,810,661	-	4,810,661
Capital projects	-	-	575,149	3,288,652	384,162	-	158,416	4,406,379
Total disbursements	5,855,140	999,140	1,837,179	3,288,652	384,162	4,810,661	323,296	17,498,230
Excess (deficiency) of receipts over (under) disbursements	(112,865)	(10,813)	2,831,802	(3,288,652)	(384,162)	(4,615,570)	(122,233)	(5,702,493)
Other financing sources (uses)								
Bond proceeds	-	-	-	8,033,098	3,900,000	1,138,334	-	13,071,432
Operating transfers in	914,404	-	400,000	-	-	3,354,734	-	4,669,138
Operating transfers (out)	(335,928)	-	(2,013,163)	(400,000)	-	-	-	(2,749,091)
Total other financing sources (uses)	578,476	-	(1,613,163)	7,633,098	3,900,000	4,493,068	-	14,991,479
Net change in cash balances	465,611	(10,813)	1,218,639	4,344,446	3,515,838	(122,502)	(122,233)	9,288,986
Cash balances beginning of year	3,311,127	134,990	1,848,088	25,404	-	352,997	1,231,991	6,904,597
Cash balances end of year	\$3,776,738	\$ 124,177	\$3,066,727	\$4,369,850	\$3,515,838	\$ 230,495	\$1,109,758	\$16,193,583



CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

	Special Revenue		Capital Projects		Debt Service	Other Nonmajor Governmental Funds	Total
General	Road Use Tax	Tax Increment Financing	A-Land/1 <sup>st</sup> Ave/ 945	Campus			
<b>Cash Basis Fund Balances</b>							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 230,495	\$ -	\$ 230,495
Unreserved:							
General fund	3,776,738	-	-	-	-	-	3,776,738
Special revenue funds	-	124,177	3,066,727	-	-	196,612	3,387,516
Capital projects funds	-	-	-	4,369,850	3,515,838	913,146	8,798,834
Total cash basis fund balances	<u>\$3,776,738</u>	<u>\$ 124,177</u>	<u>\$3,066,727</u>	<u>\$4,369,850</u>	<u>\$ 230,495</u>	<u>\$1,109,758</u>	<u>\$16,193,583</u>

See notes to financial statements.

**CITY OF ALTOONA**

RECONCILIATION OF THE STATEMENT OF CASH  
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
*Governmental Funds*

As of and for the year ended June 30, 2006

<b>Total governmental funds cash balances (page 14)</b>	\$ 16,193,583
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*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's equipment purchases to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

231,276

<b>Cash basis net assets of governmental activities (page 12)</b>	\$ <u>16,424,859</u>
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<b>Net change in cash balances (page 14)</b>	\$ 9,288,986
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*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of equipment purchases to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(93,787)

<b>Change in cash balance of governmental activities (page 12)</b>	\$ <u>9,195,199</u>
--	---------------------

See notes to financial statements.

## CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
*Proprietary Funds*

As of and for the year ended June 30, 2006

	Enterprise Funds					Internal Service Fund Equipment Replacement
	Water	Sewer	Water Deposits	Garbage	Recycling	Total
Operating receipts:						
Charges for service	\$2,731,869	\$2,570,944	\$ -	\$ 376,775	\$105,377	\$5,784,965
Use of money and property	28,650	12,577	-	-	-	41,227
Miscellaneous	5,063	69,814	23,550	8,439	-	106,866
Total operating receipts	2,765,582	2,653,335	23,550	385,214	105,377	5,933,058
Operating disbursements:						
Governmental activities:						
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Business-type activities:	4,411,327	2,118,797	14,907	329,975	105,281	6,980,287
Total operating disbursements	4,411,327	2,118,797	14,907	329,975	105,281	6,980,287
Excess (deficiency) of operating receipts over (under) operating disbursements	(1,645,745)	534,538	8,643	55,239	96	(1,047,229)
Non-operating receipts (disbursements):						
Investment interest	18,007	11,424	-	-	-	29,431
Bond proceeds	1,056,568	1,482,000	-	-	-	2,538,568
Debt service	-	-	-	-	-	-
Total non-operating receipts	1,074,575	1,493,424	-	-	-	2,567,999
Excess (deficiency) of receipts over (under) disbursements	(571,170)	2,027,962	8,643	55,239	96	1,520,770
Other financing sources (uses):						
Operating transfers in	833,541	231,465	-	-	-	1,065,006
Operating transfers (out)	(2,381,527)	(973,526)	-	-	-	(3,355,053)
Total other financing sources (uses)	(1,547,986)	(742,061)	-	-	-	(2,290,047)
Net change in cash balances	(2,119,156)	1,285,901	8,643	55,239	96	(769,277)
Cash balances beginning of year	5,126,618	3,128,838	57,255	8,431	24,987	8,346,129
Cash balances end of year	\$3,007,462	\$4,414,739	\$ 65,898	\$ 63,670	\$ 25,083	\$7,576,852

CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - CONTINUED  
*Proprietary Funds*

As of and for the year ended June 30, 2006

	Enterprise Funds					Internal Service Fund Equipment Replacement
	Water	Sewer	Water Deposits	Garbage	Recycling	Total
<b>Cash Basis Fund Balances</b>						
Reserved for equipment replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for debt service	702,042	480,975	-	-	-	1,183,017
Unreserved	2,305,420	3,933,764	65,898	63,670	25,083	6,393,835
Total cash basis fund balances	<u>\$ 3,007,462</u>	<u>\$ 4,414,739</u>	<u>\$ 65,898</u>	<u>\$ 63,670</u>	<u>\$ 25,083</u>	<u>\$ 7,576,852</u>
						<u>\$ 296,589</u>

See notes to financial statements.

**CITY OF ALTOONA**

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
*Proprietary Funds*

As of and for the year ended June 30, 2006

**Total enterprise funds cash balances (page 17)** \$ 7,576,852

***Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's equipment purchases to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

65,313

**Cash basis net assets of business type activities (page 12)** \$ 7,642,165

**Net change in cash balances (page 17)** \$ (769,277)

***Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the equipment purchases to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

47,572

**Change in cash balance of business type activities (page 12)** \$ (721,705)

See notes to financial statements.

## CITY OF ALTOONA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Altoona is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Altoona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

##### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions; The Safety Coalition of Central Iowa Communities, Polk County Aviation Authority, Intergovernmental Metro Design Policy, SEP Rural Water District, HAZ-MAT Services, Sec Taylor Stadium, WRA Metropolitan Solid Waste Agreement, building inspection for the Cities of Mitchellville, Iowa and Bondurant, Iowa, Urban Standard Specifications, SEP School district, Snow Removal for various locations, Traffic Signal lights for Highway 65 and Road surfacing at various locations, Convention and Visitors Bureau, ICA, Des Moines Water Works, Fair Play Agreement, Iowa Tobacco Enforcement Compliance and WRA Facility Plan.

##### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of the interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Basis of Presentation - Continued**

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unreserved net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Basis of Presentation - Continued**

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Deposits Fund accounts for water utility deposits by residents.

The Garbage Fund accounts for the operation and maintenance of the City's residential garbage collection system.

The Recycling Fund accounts for the operation and maintenance of the City's residential garbage and yard waste recycling system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis. This is composed of the equipment replacement fund.

**C. Measurement Focus and Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants (I.A.) and then by general receipts.



CITY OF ALTOONA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

C. Measurement Focus and Basis of Accounting - Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, all functions were within the budget guidelines.

**(2) CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments at June 30, 2006 are as follows:

Type	Carrying Amount	Fair Value
Certificates of deposit	<u>\$1,174,791</u>	<u>\$1,174,791</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$962,327 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

# CITY OF ALTOONA

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

### (3) BONDS PAYABLE

Annual debt service requirements for general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$2,055,000	\$1,916,320	\$ 540,000	\$300,055	\$2,595,000	\$2,216,375
2008	2,455,000	1,997,904	560,000	283,945	3,015,000	2,281,849
2009	2,765,000	2,234,658	585,000	266,435	3,350,000	2,501,093
2010	2,880,000	2,163,514	600,000	247,480	3,480,000	2,410,994
2011	2,750,000	1,868,021	625,000	227,398	3,375,000	2,095,419
2012	1,965,000	1,819,608	625,000	206,080	2,590,000	2,025,688
2013	1,785,000	1,540,308	445,000	188,460	2,230,000	1,728,768
2014	1,870,000	1,511,369	465,000	168,510	2,335,000	1,679,879
2015	1,975,000	1,487,349	495,000	147,660	2,470,000	1,635,009
2016	2,045,000	1,454,239	470,000	135,460	2,515,000	1,589,699
2017	1,800,000	1,435,464	500,000	114,345	2,300,000	1,549,809
2018	1,885,000	1,408,216	295,000	91,585	2,180,000	1,499,801
2019	1,975,000	1,386,419	310,000	78,900	2,285,000	1,465,319
2020	1,465,000	1,354,851	330,000	65,260	1,795,000	1,420,111
2021	885,000	703,451	345,000	50,410	1,230,000	753,861
2022	260,000	24,549	365,000	34,885	625,000	59,434
2023	275,000	12,719	385,000	18,095	660,000	30,814
	<u>\$31,090,000</u>	<u>\$24,318,959</u>	<u>\$7,940,000</u>	<u>\$2,624,963</u>	<u>\$39,030,000</u>	<u>\$26,943,922</u>

The total interest expense paid for the year ended June 30, 2006 was \$1,278,204.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Water Revenue Bond Sinking Fund in an amount equal to the maximum principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.
- C. The City covenants to establish a Water Revenue Debt Service Reserve Fund in an amount equal to the maximum principal and interest due on any one year. The amount is approximately \$360,000 at June 30, 2006.
- D. The City covenants to maintain a Water Revenue Bond Improvement Fund with an initial deposit of \$40,000. Additional funds of not less than \$750 each month will be deposited until the Fund equals or exceeds \$50,000. This account is restricted solely for the use of paying principal or interest on the Water Revenue Bonds when there is insufficient money in the Sinking Fund or Reserve Fund, and to the extent not required for the foregoing, to pay for extraordinary costs not included in the annual budget.

## **CITY OF ALTOONA**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2006

#### **(3) BONDS PAYABLE - CONTINUED**

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- B. The City covenants to establish and maintain a Sewer Revenue Bond Sinking Fund in an amount equal to the maximum amount of principal and interest coming due on all outstanding parity bonds in any succeeding fiscal year.
- C. The City covenants to establish a Sewer Revenue Debt Service Reserve Fund. The reserve is to be partially funded from bond proceeds in an amount not to exceed 10% of the bond purchase price and funds on hand. The balance in the Reserve Fund shall equal the lesser of the maximum debt service or ten percent of the net bond proceeds on outstanding bonds and is approximated at \$225,000.

#### **(4) JOINT VENTURE AND COMMITMENTS**

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

As part of the Agreement, the WRA issued debt to advance refund the sewer revenue refunding bonds Series 1997C and 2002D and the state revolving loans SRF2 and SRF3 of the City of Des Moines. In addition, state revolving loans SRF4, SRF6 and SRF7 were reassigned from the City of Des Moines to the WRA.

The City of Altoona retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A and 2004B include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities.

## **CITY OF ALTOONA**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2006

#### **(4) JOINT VENTURE AND COMMITMENTS - CONTINUED**

The WRA Agreement requires the debt service on the Series 2004A bonds to be allocated using the annual flow allocation to the participating communities based on the existing allocations of debt service under the prior I.C.A. agreement. The Series 2004A bonds had a balance of \$20,030,000 as of June 30, 2006. The City of Altoona has a commitment for approximately \$-0-, or -0-%, for future principal payment requirements on that debt. The WRA Sewer Revenue Bonds Series 2004B bonds were issued for capital expansion. The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2006, the Series 2004B bonds had a balance of \$66,830,000 and the City of Altoona's estimated future allocation based on the WRA flows is currently \$3,401,019, or 5.09%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2006, the WRA had \$12,824,000 in outstanding State Revolving Loans, of which \$-0- of future principal debt service is a commitment of the City of Altoona.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Pursuant to the new agreement, the City's investment in the joint venture under the I.C.A. Agreement has been contributed to the new WRA organization. The City retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved. During the year ended June 30, 2006, the City paid the WRA \$263,571 for operations, maintenance, equipment replacements and debt service payments.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346.

#### **(5) PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$263,300, \$226,361 and \$206,152, respectively, equal to the required contributions for each year.

**CITY OF ALTOONA**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2006

**(6) COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$199,349
Compensation	<u>39,490</u>
Total	<u>\$238,839</u>

This liability has been computed based on rates of pay as of June 30, 2006.

**(7) INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue:	\$ 250,000
	Tax Increment Financing	
	Enterprise	
	Water Fund	232,541
	Sewer Fund	431,863
Special Revenue Fund:		
Tax Increment Financing	Capital Projects	
	A-Land/1st Ave/945	400,000
Debt Service Fund	General Fund	35,927
	Special Revenue:	
	Tax Increment Financing	1,763,163
	Enterprise:	
	Water Fund	1,290,445
	Sewer Fund	265,199

**CITY OF ALTOONA**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2006

**(7) INTERFUND TRANSFERS - CONTINUED**

Transfer to	Transfer from	Amount
Internal Service Fund:		
Equipment Replacement Fund	General Fund	300,000
	Enterprise:	
	Water Fund	25,000
	Sewer Fund	45,000
Enterprise Fund:	Enterprise:	
Water Sinking Fund	Water	645,574
Water Reserve	Water	187,967
Sewer Sinking Fund	Sewer	<u>231,465</u>
Total		<u>\$ 6,104,144</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials totaling \$920 during the year ended June 30, 2006.

**(9) RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

### **(9) RISK MANAGEMENT - CONTINUED**

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$135,700.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## CITY OF ALTOONA

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

#### (10) DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. These funds are held in trust for participating employees by a third party investor.

#### (11) CONSTRUCTION CONTRACTS

At June 30, 2006, the City had entered into construction contracts of approximately \$10,995,466 for various projects. At June 30, 2006 these projects will require future payments of approximately \$6,513,034 upon completion.

#### (12) IOWA EVENTS CENTER

The City has agreed to commit City funding for the financing of the construction of the Iowa Events Center Project located on and around the area adjacent to Veteran's Memorial Auditorium in Des Moines.

The City will provide a grant of \$291,774, to be used by the county for the project. The City grant is made to assist the county in project financing. The project is determined to benefit the residents of the City and the county.

The first grant installment was disbursed by the City September 16, 2004 in the amount of \$36,471.75. Identical amounts will be paid through fiscal year 2012.

#### (13) REVENUE RESERVE BALANCES

Revenue reserve balances are not available for general operating use. They are included with their respective water or sewer cash balances on Exhibit D. Cash balances at end of year are summarized as follows:

	Water	Sewer	Water Deposits	Garbage	Recycling	Total
General operation	\$2,305,420	\$3,933,764	\$65,898	\$ 63,670	\$ 25,083	\$6,393,835
Sinking fund	31,375	5,673	-	-	-	37,048
Revenue reserve fund	670,667	475,302	-	-	-	1,145,969
	<u>\$3,007,462</u>	<u>\$4,414,739</u>	<u>\$65,898</u>	<u>\$ 63,670</u>	<u>\$ 25,083</u>	<u>\$7,576,852</u>



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ALTOONA**

**BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

Year ended June 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Less Funds not Required to Be Budgeted	Net	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
					Original	Final	
Receipts:							
Property tax	\$3,120,958	\$ -	\$ -	\$3,120,958	\$3,003,692	\$3,003,692	\$ 117,266
Tax increment financing collections	4,668,981	-	-	4,668,981	4,289,106	4,289,106	379,875
Other city tax	1,378,158	-	-	1,378,158	555,718	560,718	817,440
Licenses and permits	628,498	-	-	628,498	387,000	460,000	168,498
Uses of money and property	315,202	41,227	-	356,429	117,551	117,551	238,878
Intergovernmental	1,264,246	-	-	1,264,246	1,191,676	1,191,676	72,570
Charges for service	360,152	5,784,965	-	6,145,117	5,471,268	5,471,268	673,849
Special assessments	5,965	-	-	5,965	-	-	5,965
Miscellaneous	53,577	106,866	-	160,443	757,200	857,200	(696,757)
Total receipts	<u>11,795,737</u>	<u>5,933,058</u>	<u>-</u>	<u>17,728,795</u>	<u>15,773,211</u>	<u>15,951,211</u>	<u>1,777,584</u>
Disbursements:							
Public safety	3,154,466	101,314	101,314	3,154,466	3,250,092	3,250,092	95,626
Public works	999,140	141,140	141,140	999,140	997,534	1,062,534	63,394
Culture and recreation	1,614,779	151,333	151,333	1,614,779	1,198,307	2,000,107	385,328
Community and economic development	1,796,100	-	-	1,796,100	1,776,621	2,220,621	424,521
General government	716,705	-	-	716,705	678,470	743,470	26,765
Debt service	4,810,661	-	-	4,810,661	2,729,168	5,029,168	218,507
Capital projects	4,406,379	-	-	4,406,379	10,941,236	8,230,436	3,824,057
Business-type	-	7,002,715	22,428	6,980,287	7,771,659	9,162,659	2,182,372
Total disbursements	<u>17,498,230</u>	<u>7,396,502</u>	<u>416,215</u>	<u>24,478,517</u>	<u>29,343,087</u>	<u>31,699,087</u>	<u>7,220,570</u>
Excess (deficiency) of receipts over disbursements	(5,702,493)	(1,463,444)	(416,215)	(6,749,722)	(13,569,876)	(15,747,876)	8,998,154
Other financing sources							
Investment interest	-	29,431	-	29,431	-	-	29,431
Bond proceeds	13,071,432	2,538,568	-	15,610,000	10,390,000	11,590,000	4,020,000
Other	1,920,047	(1,920,047)	-	-	-	-	-
Total other financing sources	<u>14,991,479</u>	<u>647,952</u>	<u>-</u>	<u>15,639,431</u>	<u>10,390,000</u>	<u>11,590,000</u>	<u>4,049,431</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	9,288,986	(815,492)	(416,215)	8,889,709	(3,179,876)	(4,157,876)	13,047,585
Balances beginning of year	<u>6,904,597</u>	<u>8,688,933</u>	<u>(508,217)</u>	<u>16,101,747</u>	<u>11,734,913</u>	<u>11,734,913</u>	<u>4,366,834</u>
Balances end of year	<u>\$16,193,583</u>	<u>\$7,873,441</u>	<u>\$ (924,432)</u>	<u>\$ 24,991,456</u>	<u>\$ 8,555,037</u>	<u>\$ 7,577,037</u>	<u>\$17,414,419</u>

See accompanying independent auditor's report.

## **CITY OF ALTOONA**

### **REQUIRED SUPPLEMENTARY INFORMATION**

#### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, a budget amendment increased budgeted disbursements by \$2,356,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, no disbursements exceeded the amounts budgeted.

## **OTHER SUPPLEMENTARY INFORMATION**

## CITY OF ALTOONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

	Special Revenue		Capital Projects			
	Employee Benefits	Drug Enforcement Agency	Westside Sewer	Sewer Plant Expansion	WRA Sewer Project	Other
						Total
Receipts:						
Property tax	\$105,811	\$ -	\$ -	\$ -	\$ -	\$ -
Uses of money and property:						
Interest on investments	-	2,000	-	-	-	187
Intergovernmental:						
DEA funds	-	81,328	-	-	-	-
Hook up fees	-	-	11,737	-	-	-
Total receipts	105,811	83,328	11,737	-	-	187
Disbursements:						
Operating:						
Public safety	105,811	59,069	-	-	-	-
Capital projects	-	-	151,462	-	6,954	-
Total disbursements	105,811	59,069	151,462	-	6,954	-
Excess (deficiency) of receipts over (under) disbursements	-	24,259	(139,725)	-	(6,954)	187
Cash balances beginning of year	-	172,353	242,945	333,623	202,057	281,013
Cash balances end of year	\$ -	\$ 196,612	\$ 103,220	\$ 333,623	\$ 195,103	\$ 281,200
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ -	\$ 196,612	\$ -	\$ -	\$ -	\$ -
Capital project funds	-	-	103,220	333,623	195,103	281,200
Total cash basis fund balances	\$ -	\$ 196,612	\$ 103,220	\$ 333,623	\$ 195,103	\$ 281,200

See accompanying independent auditor's report.

CITY OF ALTOONA

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Library Bonds Series 1996A	Nov. 1, 1996	5.00 - 5.30%	\$ 3,700,000	\$ 2,850,000	\$ -	\$ 200,000	\$ 2,650,000	\$ 148,350	\$ -
Refunding Bonds Series 1996B	Nov. 1, 1996	5.00 - 5.20	2,370,000	1,420,000	-	1,420,000	-	71,855	-
Water Bonds Series 1997	Nov. 1, 1997	4.55 - 4.85	1,700,000	1,155,000	-	1,155,000	-	54,370	-
Corporate Purpose Series 2000	Oct. 1, 2000	4.55 - 4.75	2,800,000	1,700,000	-	250,000	1,450,000	78,750	-
Urban Renewal Series 2001	Apr. 1, 2001	3.75 - 4.10	4,700,000	3,045,000	-	455,000	2,590,000	118,358	-
Corporate Purpose Series 2003A	Oct. 20, 2003	3.00 - 4.625	3,940,000	3,605,000	-	210,000	3,395,000	136,274	-
Urban Renewal/Corporate Purpose Series 2004C	Sept. 1, 2004	3.00 - 4.20	5,695,000	5,595,000	-	100,000	5,495,000	206,453	-
Urban Renewal/Corporate Purpose Series 2005 B	Dec. 15, 2005	3.25 - 3.95	6,265,000	-	6,265,000	100,000	6,165,000	106,253	-
Refunding Bonds Series 2006A	Mar. 29, 2006	3.45 - 3.70	2,200,000	-	2,200,000	-	2,200,000	-	-
Urban Renewal/Corporate Purpose Series 2006B	Jun. 1, 2006	4.00 - 4.375	7,145,000	-	7,145,000	-	7,145,000	-	-
				19,370,000	15,610,000	3,890,000	31,090,000	920,663	-
Revenue bonds:									
Water	Nov. 1, 1997	4.90 - 5.00	2,275,000	1,970,000	-	95,000	1,875,000	97,612	-
Sewer	Feb. 1, 2002	4.00 - 4.20	1,730,000	1,395,000	-	175,000	1,220,000	56,466	-
Water Refunding Series 2004	Mar. 3, 2004	2.20 - 3.15	955,000	815,000	-	140,000	675,000	20,553	-
Water Series 2004B	Sept. 1, 2004	4.00 - 4.70	4,280,000	4,280,000	-	110,000	4,170,000	182,410	-
				8,460,000	-	520,000	7,940,000	357,041	-
Total				\$27,830,000	\$15,610,000	\$4,410,000	\$39,030,000	\$1,277,704	\$ -

See accompanying independent auditor’s report.

CITY OF ALTOONA

BOND MATURITIES

June 30, 2006

General Obligation Bonds																	
	Library Bonds Series 1996A		Corporate Purpose Series 2000		Urban Renewal Corporate Purpose Series 2001		Corporate Purpose Series 2003A		Urban Renewal Corporate Purpose Series 2004C		Urban Renewal Corporate Purpose Series 2005B		Refunding Bonds Series 2006A		Urban Renewal Corporate Purpose Series 2006B		
Year	Issued November 1, 1996		Issued October 1, 2000		Issued April 1, 2001		Issued October 20, 2003		Issued September 1, 2004		Issued December 15, 2005		Issued March 29, 2006		Issued June 1, 2006		
Ending June 30,	Interest		Interest		Interest		Interest		Interest		Interest		Interest		Interest		Total
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2007	5.00%	\$ 200,000	4.55%	\$ 260,000	3.75%	\$ 475,000	3.00%	\$ 205,000	3.00%	\$ 100,000	3.25%	\$ 100,000	3.45%	\$ 395,000	4.00%	\$ 320,000	\$ 2,055,000
2008	5.00	225,000	4.60	275,000	3.85	495,000	3.00	210,000	3.25	350,000	3.30	100,000	3.50	435,000	4.00	365,000	2,455,000
2009	5.10	225,000	4.65	290,000	3.95	515,000	3.00	145,000	3.25	365,000	3.40	395,000	3.55	450,000	4.00	380,000	2,765,000
2010	5.20	250,000	4.70	305,000	4.00	540,000	3.00	150,000	3.25	380,000	3.45	410,000	3.60	450,000	4.00	395,000	2,880,000
2011	5.25	250,000	4.75	320,000	4.10	565,000	3.25	155,000	3.30	395,000	3.50	425,000	3.65	225,000	4.00	415,000	2,750,000
2012	5.30	275,000	-	-	-	-	3.50	160,000	3.50	410,000	3.55	445,000	3.70	245,000	4.00	430,000	1,965,000
2013	5.30	275,000	-	-	-	-	3.50	170,000	3.60	430,000	3.60	460,000	-	-	4.00	450,000	1,785,000
2014	5.30	300,000	-	-	-	-	3.70	175,000	3.70	450,000	3.65	480,000	-	-	4.25	465,000	1,870,000
2015	5.30	325,000	-	-	-	-	3.85	185,000	3.80	475,000	3.70	500,000	-	-	4.25	490,000	1,975,000
2016	5.30	325,000	-	-	-	-	4.00	195,000	4.00	495,000	3.75	520,000	-	-	4.25	510,000	2,045,000
2017	-	-	-	-	-	-	4.00	200,000	4.00	520,000	3.80	545,000	-	-	4.25	535,000	1,800,000
2018	-	-	-	-	-	-	4.15	210,000	4.10	550,000	3.85	570,000	-	-	4.25	555,000	1,885,000
2019	-	-	-	-	-	-	4.25	220,000	4.20	575,000	3.90	595,000	-	-	4.25	585,000	1,975,000
2020	-	-	-	-	-	-	4.35	235,000	-	-	3.95	620,000	-	-	4.375	610,000	1,465,000
2021	-	-	-	-	-	-	4.45	245,000	-	-	-	-	-	-	4.375	640,000	885,000
2022	-	-	-	-	-	-	4.55	260,000	-	-	-	-	-	-	-	-	260,000
2023	-	-	-	-	-	-	4.625	275,000	-	-	-	-	-	-	-	-	275,000
Total		<u>\$2,650,000</u>		<u>\$1,450,000</u>		<u>\$2,590,000</u>		<u>\$3,395,000</u>		<u>\$5,495,000</u>		<u>\$6,165,000</u>		<u>\$2,200,000</u>		<u>\$7,145,000</u>	<u>\$31,090,000</u>

See accompanying independent auditor’s report.

## CITY OF ALTOONA

## BOND MATURITIES

June 30, 2006

Revenue Bonds									
Year Ending June 30,	Water Issued Nov. 1, 1997		Sewer Issued Feb 1, 2002		Water Refunding Issued March 3, 2004		Water Series 2004 B Issued Sept. 1, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	4.90%	\$ 100,000	4.00%	\$ 185,000	2.20%	\$ 155,000	4.00%	\$ 100,000	\$ 540,000
2008	4.90	115,000	4.00	190,000	2.50	155,000	4.00	100,000	560,000
2009	4.90	120,000	4.00	200,000	2.70	125,000	4.00	140,000	585,000
2010	4.90	125,000	4.00	205,000	3.00	125,000	4.00	145,000	600,000
2011	4.90	130,000	4.10	215,000	3.15	115,000	4.00	165,000	625,000
2012	4.90	180,000	4.20	225,000	-	-	4.00	220,000	625,000
2013	5.00	215,000	-	-	-	-	4.00	230,000	445,000
2014	5.00	225,000	-	-	-	-	4.00	240,000	465,000
2015	5.00	240,000	-	-	-	-	4.00	255,000	495,000
2016	5.00	205,000	-	-	-	-	4.10	265,000	470,000
2017	5.00	220,000	-	-	-	-	4.20	280,000	500,000
2018	-	-	-	-	-	-	4.30	295,000	295,000
2019	-	-	-	-	-	-	4.40	310,000	310,000
2020	-	-	-	-	-	-	4.50	330,000	330,000
2021	-	-	-	-	-	-	4.50	345,000	345,000
2022	-	-	-	-	-	-	4.60	365,000	365,000
2023	-	-	-	-	-	-	4.70	385,000	385,000
		<u>\$1,875,000</u>		<u>\$1,220,000</u>		<u>\$ 675,000</u>		<u>\$4,170,000</u>	<u>\$7,940,000</u>

See accompanying independent auditor's report.



## CITY OF ALTOONA

SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL AND PROPRIETARY FUNDS

	Years ended June 30,			
	2006	2005	2004	2003
Receipts:				
Property tax	\$3,120,958	\$2,997,641	\$ 2,865,547	\$ 2,678,720
Other city tax				
Hotel/motel	503,295	526,819	484,003	447,529
Lottery	874,863	883,267	-	-
Total property and other city tax	4,499,116	4,407,727	3,349,550	3,126,249
Tax increment financing collections	4,668,981	3,822,352	3,438,325	2,733,657
Licenses and permits	628,498	618,660	601,370	358,481
Use of money and property	315,202	147,827	65,037	129,639
Intergovernmental:				
Road use tax	988,327	860,477	861,943	842,356
Library	126,913	129,285	134,060	103,188
State allocation	30,178	17,555	15,198	100,022
Grants	31,540	602	537,972	417,608
Bank franchise tax	-	2,262	15,198	23,426
Drug enforcement	81,328	41,415	164,451	34,557
Miscellaneous	5,960	10,393	20,803	2,156
Total intergovernmental	1,264,246	1,061,989	1,749,625	1,523,313
Charges for service	6,145,117	5,647,020	5,351,291	4,371,909
Special assessments	5,965	6,321	-	-
Miscellaneous	15,841,101	10,523,622	5,753,320	854,790
Total	33,368,226	26,235,518	20,308,518	13,098,038
Disbursements:				
Operating:				
Public safety	3,218,701	2,723,329	2,467,932	2,287,810
Public works	1,140,280	950,001	1,072,167	1,681,339
Culture and recreation	1,766,112	1,589,834	2,389,236	1,278,648
Community and economic development	1,833,179	1,686,510	1,208,469	776,225
General government	716,705	249,959	344,160	390,571
Debt service	4,810,661	2,385,084	2,552,061	1,937,512
Capital projects	4,406,379	6,418,797	531,572	3,193,364
Business-type activities	7,002,715	5,289,755	7,507,277	3,222,362
Total	\$24,894,732	\$21,293,269	\$18,072,874	\$14,767,831

See accompanying independent auditor's report.



**MARTENS & COMPANY, CPA, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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West Des Moines, Iowa 50266

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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters**  
**Based on an Audit of Financial Statements Performed in Accordance with Government Auditing  
Standards**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Altoona, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 31, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Altoona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-06.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Altoona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Altoona and other parties to whom the City of Altoona may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Altoona during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
August 31, 2006

## **CITY OF ALTOONA**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2006

#### **Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepting accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## CITY OF ALTOONA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

#### **Part II: Findings Related to the Financial Statements:**

##### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

##### **REPORTABLE CONDITIONS:**

- II-A-06    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-06    Computer System Control - The design and controls established over the computer system process is very important in providing assurance and financial integrity of the City's financial records. We noted some weaknesses in the policies and controls.

Recommendation - Controls should be established to prevent after hour computer usage. There should be a written disaster recovery plan.

Response - We will consider this.

Conclusion - Response acknowledged. Once established, the recommended policies and procedures will add a measure of assurance to the City's financial records.

## CITY OF ALTOONA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

#### **Part III: Other Findings Related to Statutory Reporting:**

- III-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, did not exceed the amounts budgeted.
- III-B-06 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-06 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Timothy J. Burget, Mayor	Flu shot, dues	\$ 410
Josiah (Skip) Conkling, Council member	Luncheon	\$ 20
Matt Davenport, Council member	Cell phone expense	\$ 240
Charles Franklin, Council member	Computer	\$ 250

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Mayor and the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

## CITY OF ALTOONA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

#### **Part III: Other Findings Related to Statutory Reporting :**

- III-E-06    Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- III-F-06    Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.
- III-G-06    Revenue Bonds - All provisions of the revenue bond requirements have been met.
- III-H-06    Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.